

Premera Blue Cross
Public Meeting

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WASHINGTON STATE INSURANCE COMMISSION

PUBLIC MEETING

IN THE MATTER OF

THE PROPOSED CONVERSION OF PREMIERA BLUE CROSS

TO A FOR-PROFIT CORPORATION

October 2, 2002

at

West Coast Ridpath Hotel
515 West Sprague Street
Spokane, Washington

Taken Before:

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P R O C E E D I N G S

COMMISSIONER KREIDLER: Good evening. My name is Mike Kreidler, Washington State Insurance Commissioner. And joining me are Assistant Attorney General Rusty Fallis and Deputy Insurance Commissioner Jim Odiorne. And thank you for coming out tonight and participating in this forum.

On May 30th of this year, Premera Blue Cross, MSC as it is frequently referred to in Spokane, notified me of their intent to convert from a nonprofit to a for-profit company. Ultimately, I will be acting as a judge to decide what impact this application, if approved, would have on the consumers of the State of Washington.

However, tonight I will refrain from talking about the merits of the proposed conversion. Our primary concerns with the application are that the consumers are not harmed by a conversion, potential impact on Premera's solvency, and obtaining an accurate valuation of Premera's assets.

This evening's agenda, it is critical that we hear from the public early in this process of application, and that is clearly what we're here for tonight, is to hear from citizens and consumers of the State of Washington.

We are going to try to keep our comments to a

1 minimum. We will begin by hearing from -- ten minutes
2 from Deputy Insurance Commissioner Jim Odiorne, to my
3 right, followed by Assistant Attorney General Fallis, who
4 will have a ten-minute presentation. Following them will
5 be Premera Blue Cross, who will have 15 minutes to
6 describe their conversion proposal. And then we're going
7 to open it up to public comment, which is the principal
8 reason that we're here.

9 I would like to turn now to Deputy Insurance
10 Commissioner Jim Odiorne.

11 MR. ODIORNE: Thank you, Commissioner.

12 Good evening and welcome. Your presence here, your
13 comments are truly helpful to us in this process as we
14 review the transaction as it has been proposed.

15 As the Commissioner indicated, Premera filed with us
16 a Form A application. Form A is regulator lingo for
17 change of control. Whenever as much as 10 percent or
18 more of a company changes control, the Form A is
19 required, and with the Form A, review by our office. We
20 do two or three Form A's each year. The Premera proposed
21 transaction is the largest since the Farmers Group was
22 purchased.

23 The transaction that Premera has proposed has been
24 bundled in a Form A but actually contains a number of
25 transactions, creations of companies, intercompany

1 agreements within the holding company group, solicitation
2 permits to allow them to sell stock, and possibly other
3 transactions. Each of those has to be reviewed
4 individually and as it affects the whole.

5 The Commissioner's primary authority is the Health
6 Carrier Holding Company Act, which was passed last year.
7 Under that act, the transaction requires formal hearing
8 before final decision is made. And as the Commissioner
9 indicated, he will be acting as the judge in that
10 hearing. And as the judge, he has to limit his access to
11 certain information prior to the formal hearing. And for
12 that reason, part of his staff has been walled off, if
13 you will, so there is not an improper transfer of
14 information back and forth so that he can maintain his
15 judicial function.

16 The team -- I've been appointed to lead the review
17 team, and my team will ultimately make a recommendation
18 to the Commissioner based on all the information that
19 we're able to gather and assemble, and that information
20 will be presented at a formal hearing.

21 We do several of these each year, as I indicated,
22 but this is a massive transaction. And for that reason,
23 we have retained a number of experts to help us in the
24 review process. Among those experts are investment
25 bankers, actuaries, accounting and tax experts, and legal

1 experts. The apparent successful bidders in our
2 solicitation of bids all have prior experience
3 representing other states in conversion transactions. So
4 this is not new to them. We don't have to train them as
5 we go. They know what's going on. We will work very
6 closely with those consultants in developing a
7 recommendation for the Commissioner.

8 We have required that the experts provide us an
9 executive summary, which will be filed and made available
10 to the public prior to the time of the final hearing. We
11 did issue a preliminary time frame for this transaction
12 that called for everything to be completed by the end of
13 December. Things change and that time frame changes as
14 we go. Changes we've recently heard of from the
15 Assistant Attorney General representing the Commissioner
16 indicate that we will not be able to finish by December.

17 In any event, I'm not going to ask to make a
18 recommendation to the Commissioner until we feel that we
19 have all the information we need, it's been thoroughly
20 evaluated, and we have, if you would, cross-examined the
21 experts before we make the recommendation.

22 Our intention is to make as much information as is
23 legally possible available to the public. We will do
24 that by posting on the Web site as often as we can. The
25 Premiera filing is now on our web site, as it is on

1 theirs. There was a supplement to that filing that was
2 made last Friday, and we don't have that up yet, but it
3 should be in a day or so.

4 The Assistant Attorney General representing the
5 Commissioner has indicated that there will be prefile
6 testimony, and to the extent possible, that will also be
7 posted on the web site. You can visit our web site at
8 www.insurance.wa.gov and follow the process as it goes
9 forward.

10 Again, we thank you for coming tonight, and we look
11 forward to your comments.

12 COMMISSIONER KREIDLER: Thank you very much,
13 Mr. Odiorne.

14 Let me, as I introduce, now, Assistant Attorney
15 General Rusty Fallis, point out that Attorney General
16 Christine Gregoire very much wanted to be here this
17 evening. She is representing the State interests in a
18 very significant negotiation on a settlement with a very
19 large corporation right now, that is going to have
20 significant penalty involved in those negotiations and
21 settlement. And it also represents the Insurance
22 Commissioner's Office, so we're very pleased that she's
23 representing our interests back in Chicago presently.

24 She very much wanted to be here and wanted me to
25 express her personal regret that she couldn't join us

1 this evening, but is very pleased that the person who is
2 taking the lead for her in the Attorney General's Office
3 is with us. And it's my pleasure to introduce Assistant
4 Attorney General Fallis.

5 MR. FALLIS: Thank you, Commissioner Kreidler.

6 And I'll echo the Commissioner's remarks about
7 Attorney General Gregoire's regret at not being here. As
8 you probably know, she has many ties to this community
9 and was very much looking forward to being here. And it
10 just became impossible for her to do what she needed to
11 do in Chicago and be here tonight. So she offers her
12 sincere regrets.

13 I want to describe briefly the various roles that
14 the Office of the Attorney General plays in connection
15 with the proposed conversion. One role that we will play
16 is the legal advisor to the Office of the Insurance
17 Commissioner. As is the case in other state agencies,
18 the Commissioner's office receives legal counsel and
19 litigation support from the Attorney General's Office.

20 In connection with this conversion, we have lawyers
21 who will be available to provide legal advice to
22 Commissioner Kreidler, as the final decision-maker, with
23 respect to those things that he is lawfully charged to
24 determine in connection with this conversion.

25 We have a separate set of lawyers on staff who are

1 available to assist the commission staff, the review
2 staff, as Deputy Commissioner Odiorne described it, in
3 the adjudicative hearing. And the bifurcation of our
4 legal staff reflects the requirement in the
5 Administrative Procedure Act that the final
6 decision-maker in an administrative hearing, in effect,
7 be insulated from those people who are participating as
8 advocates.

9 So as Deputy Commissioner Odiorne mentioned, the
10 commission staff who will be participating as a party in
11 the adjudicative hearing will be screened from the
12 Commissioner. Similarly, the lawyers in my office that
13 will be advising Deputy Commissioner Odiorne and his
14 hearing staff will be screened from the lawyers in my
15 office who will be advising Commissioner Kreidler.

16 I mention that just because, in the course of this,
17 you may see various Assistant Attorneys General, and you
18 may wonder why some are advising one department and
19 others are advising the other department. And the
20 purpose is just to make sure that the final
21 decision-maker is impartial and isn't approached
22 improperly by people who have a stake in the outcome.

23 A second role that the office will play is reviewing
24 potential antitrust issues and possible anticompetitive
25 effects of the proposed conversion. The Insurance

1 Holding Company Act specifically calls for the Attorney
2 General's Office and the Commissioner's Office to confer
3 on such issues. There is a group of lawyers in my office
4 who handle antitrust issues. They will review the
5 transaction and make their views and concerns, if any,
6 known to the commission staff.

7 It is possible that the antitrust lawyers will seek
8 to participate formally as a party in the adjudicative
9 hearing. Whether they do or not depends on what they
10 conclude, and that's their decision. But I mention it
11 because it's at least possible that their review of these
12 issues may, in part, take the form of participating as a
13 party in the hearing.

14 The third role that my office will play will be to
15 review the plan of distribution of assets that's embodied
16 in the conversion. This proposed conversion would
17 involve, among other things, the dissolution of certain
18 existing nonprofit corporations, and through a sequence
19 of transactions, the funding of new charitable
20 organizations that would perform certain
21 healthcare-related initiatives.

22 Under the Washington Nonprofit Corporation Act,
23 where there is a proposal to dissolve a nonprofit
24 corporation and that corporation has assets which by law
25 can be used only for charitable or other similar public

1 purposes, the law says that those assets must be
2 preserved for such purposes and must be transferred to a
3 similar private nonprofit entity. What that means is
4 that, in this case, those aspects of the conversion that
5 would involve the transfer of assets from the existing
6 nonprofit corporations to new entities require the
7 Attorney General's approval.

8 In practical terms our review will involve two major
9 areas of inquiry. One will be to look at the valuation
10 of the assets to make sure that the size of the endowment
11 that is created is appropriate. This will be a very
12 technical, analytical exercise, and I expect that, to a
13 significant degree, we will rely on the investment
14 banking firm and the other technical experts that the
15 Commissioner's Office is engaging to help in the review
16 of the transaction.

17 The second major area of inquiry will be to look at
18 the nature and structure of the charitable organizations
19 that are proposed to be created. As I mentioned, the
20 Nonprofit Corporation Act, and indeed the common law of
21 charitable trusts, provides that the successor
22 organization has to carry out purposes that are similar
23 to those carried out by the organizations that are being
24 dissolved. So we will look closely at the mission
25 statements and the articles and bylaws of these

1 charitable organizations to make sure that they are, in
2 fact, capable of carrying out the appropriate public
3 services.

4 My office certainly welcomes input from stakeholder
5 groups and citizens through the pendency of this process.
6 We are in the process of trying to set up a comment line
7 so that, if anyone has comments or concerns they want to
8 make about the conversion and it's not convenient to
9 appear at a public hearing, then we'll have a phone
10 number that you can call seven days a week, 24 hours a
11 day, and tell us what's on your mind. That's not up and
12 running yet, but hopefully it will be in a few days. And
13 I expect we'll have information on our web site about
14 that number.

15 Thank you very much for coming. We appreciate your
16 interest.

17 COMMISSIONER KREIDLER: Thank you very much,
18 Assistant Attorney General Fallis. Let me assure you
19 that the Attorney General and I are working very closely
20 together. There's no conflict. It is one that we are
21 linked arm in arm as we approach this very complex and
22 certainly significant proposal that is before the people
23 of the State of Washington and the consumers of Premiera
24 Blue Cross healthcare services.

25 It is my -- next I would -- as I pointed out, we're

1 going to hear from Premera Blue Cross. I would like to
2 call on Mr. Gubby Barlow, who is the chief executive
3 officer of Premera Blue Cross, MSC.

4 MR. BARLOW: Good evening, Commissioner,
5 Assistant Attorney General Fallis, and Deputy
6 Commissioner Odiorne. Thank you for the opportunity to
7 discuss our proposal to raise capital as a public
8 company.

9 For months since we announced our proposal last
10 spring, many people have shared with me their support and
11 also their concerns. People ask me: Why does Premera
12 want to convert? Will Premera focus on Wall Street
13 instead of its members? Will being for-profit cause
14 premiums to rise or squeeze payments to physicians and
15 hospitals? Will Premera executives get huge success
16 bonus when the company converts? Will you remain in
17 rural areas of the state? And does Premera want to be
18 taken over by an out-of-state insurer? And if not, how
19 will Premera prevent it?

20 I've also seen great interest in our proposal to
21 dedicate 100 percent of the initial stock to funding
22 health initiatives in Washington and Alaska. Many people
23 have strong opinions about how those funds should be
24 spent, who should control the charities, and some are
25 concerned about an accurate valuation of the company.

1 These are important questions that certainly deserve
2 thorough public discussion. I'm confident we can address
3 them all.

4 A bit more about our company. Premera Blue Cross is
5 a nonprofit Washington corporation, one of the largest
6 private corporations in Washington, with 3,000 employees
7 serving over 1.4 million people in three states. Our
8 roots go back to 1933 in Washington, 1957 in Alaska, and
9 1994 in Oregon. This year we started a new affiliate in
10 Arizona.

11 So what is Premera trying to achieve as a business?
12 I believe people buy health insurance for one primary
13 reason: Peace of mind. This is our mission, providing
14 peace of mind to our members about their healthcare
15 coverage. For us, delivering on that mission means being
16 financially stable, providing broad choices of products,
17 physicians, hospitals, providing excellent service and
18 supporting growth. Growth not only responds to
19 customers' needs, it spreads our operating costs over a
20 larger base, which is a benefit to all our members.

21 And because all healthcare is local, we believe we
22 can best meet our mission as an independent
23 Washington-based company. This has been our strategy; it
24 remains our strategy, whether we are nonprofit or
25 for-profit.

1 So why then do we want to convert? Because going
2 public creates more resources to accomplish our mission.
3 This is a highly capital-intensive business. To maintain
4 insurance reserves, to invest in new technologies and
5 products, and to serve more members, as a nonprofit our
6 resources are -- our sources of capital are effectively
7 limited to our operating profits. Those operating profit
8 margins are slim, last year about 1 percent of each
9 premium dollar.

10 We have explored other sources of capital but have
11 rejected them. For example, another nonprofit Washington
12 health plan explored merging last year with a large
13 health plan in Chicago. That option isn't consistent
14 with Premiera's desire to remain independent. It has its
15 headquarters right here in Washington.

16 I would like now to address some of those concerns I
17 have heard. As for the influence of Wall Street, I've
18 said this before, any company that focuses on
19 shareholders first and its customers and stakeholders
20 second is doomed to fail on both fronts. Our mission and
21 dedication to our members remains the same, whether we
22 operate as a nonprofit or a publicly held company.

23 Second, going public will not increase premiums or
24 reduce fees for physicians and other providers. Today we
25 are in a very competitive market, competing with

1 for-profit and nonprofits alike. We charge our customers
2 the market price. We pay our physicians and hospitals
3 what the market demands. Clearly these market forces are
4 independent of and unaffected by our corporate form. In
5 fact, Gary Neeson (ph) of Washington Premera has
6 increased our standard rates for physicians by more than
7 20 percent since January of 2000.

8 Third, some conversions elsewhere have involved
9 large success bonuses for executives. There will be no
10 success bonuses if Premera converts. In the future,
11 stock ownership plans may be offered to certain of our
12 employees, but our board has yet to address this issue.
13 We will submit any such plan to State officials before
14 you make a decision on our conversion.

15 Fourth, with some conversions in other states, there
16 have been debates of the value of the company. By
17 dedicating 100 percent of the initial stock outright, the
18 full worth of the company is going directly to support
19 health initiatives. The stock market, which is the most
20 efficient and effective arbiter of value that we know of,
21 will determine the value of that stock.

22 Five, there are no plans to sell this company, and
23 we remain committed to rural areas. Premera has an
24 independent board of respected community medical and
25 business leaders. Our board has repeatedly determined

1 that we remain independent and based in Washington
2 because that is how we can serve our members best.
3 That's why our conversion plan incorporates all
4 anti-takeover provisions that are available to us by
5 Washington law.

6 Further, the state's Holding Company Act provides
7 additional protections. In the unlikely event that our
8 board determined to sell, the insurance commissioner
9 would be required to scrutinize any proposed sale with
10 the same due diligence as our conversion.

11 As for our commitments to rural areas, our track
12 record speaks for itself. Premiera's family of companies
13 currently serves every Washington county. We have
14 remained in many counties after other nonprofit and
15 for-profit insurers have left. Where we have stopped
16 selling products in the past, it has been after careful
17 consideration.

18 For example, we stopped selling Medicare-plus
19 Choice. We did this because federal funding was
20 inadequate to cover all costs, including fees, acceptable
21 to physicians and hospitals.

22 We believe that, strategically, a statewide network
23 of physicians and hospitals and a statewide presence,
24 including our rural areas, is a valuable competitive
25 advantage that we wish to maintain into the future.

1 In summary, I believe this conversion produces three
2 great wins: A win for our members through increased
3 capital to serve them better; it's a win for the state
4 through a growing company supporting local employment and
5 a tax base; and as a win for the people of Washington and
6 Alaska through a substantial pool of funds that will be
7 available to devote to health initiatives.

8 Thank you very much. Now, Yori Milo, one of our
9 executive officers, will add some details about our
10 proposal.

11 MR. MILO: Thank you.

12 Mr. Barlow explained why Premiera seeks to change
13 corporate structure; that is to access capital. I'm
14 going to talk more specifically about what Premiera's
15 proposed to do in its Form A filing that's been filed in
16 the Office of the Insurance Commissioner; that is, how we
17 propose to reorganize as a stock company and also to
18 discuss the charitable initiatives that Mr. Barlow
19 discussed.

20 And to do that, I would like to take a look at the
21 Premiera family of companies as it's currently structured
22 today and then take a look at how we would look, how the
23 family of companies would look, after the proposed
24 organization. And we've circulated slides which will be
25 put on a screen.

1 As you can see, the Premera family of companies
2 today is a mix of both for-profit and nonprofit
3 companies. The companies designated in green are
4 nonprofits. The companies designated in blue are
5 for-profits. For example, our main operating company,
6 Premera Blue Cross, which provides health insurance
7 coverage in Alaska and Washington, is a nonprofit and has
8 been a nonprofit from its inception.

9 By contrast, other companies in the family of
10 companies like LifeWise of Oregon, at the bottom,
11 underside of the chart, is and has always been a
12 for-profit company and sells health insurance in Oregon.
13 Similarly, States West Life is a life and disability
14 company, a for-profit operating in Washington, Alaska,
15 and Oregon and licensed in a number of other states.

16 So that brings a question: What is the key
17 difference between nonprofits, like Premera, and
18 for-profits. A key difference is share ownership. Four
19 Premera companies have stockholders, and stockholders
20 obtain their shares by paying money into the corporation,
21 which serves as capital and reserves, and serves to
22 support operations of the company.

23 By contrast, nonprofits have no stockholders, which
24 means that companies like Premera have to raise their --
25 have to raise their capital through operation, through

1 profits from operations, which is the reason Premera is
2 seeking to reorganize, so it will be able to issue stock
3 to raise capital.

4 While there are difference between for profits and
5 nonprofits, there are also significant similarities
6 between for-profits and a company like Premera. Contrary
7 to common misperception, Premera is not a tax-exempt
8 charitable organization. It pays both federal and state
9 taxes. In 2001 it paid over \$37 million to the State of
10 Washington, exactly the same amount as it would have paid
11 had it been a for-profit company. And it also paid over
12 \$10 million in federal tax. Another similarity, both
13 for-profit insurance companies and nonprofit insurance
14 companies, and Premera, if it proceeds with a conversion,
15 are and would be regulated by the same rules and
16 regulations from an insurance perspective. No difference
17 there.

18 Let's take a look at what the Premera family of
19 companies would look like if the reorganization as
20 contemplated by our Form A filing is approved. You can
21 see the companies in blue at the bottom of the chart is
22 the same family of companies that appear in the previous
23 chart now organized in for-profit form, with the ability
24 of the top tier company, New Premera, to issue shares of
25 stock. That would be accomplished through a series of

1 transactions which are described in our Form A filing and
2 require the review and approval of the Insurance
3 Commission and the Attorney General under the Holding
4 Company Act and under corporate law.

5 On the chart you also see several new organizations
6 designated in green, new nonprofit entities which are the
7 vehicle we've proposed to support the health initiatives
8 that would be supported by a charitable endowment created
9 out of the conversion. As Mr. Barlow said, 100 percent
10 of the initial stock created out of the conversion would
11 be given, not sold, given, to the new charitable
12 foundation designated under the new foundation's
13 shareholder. And the purpose of the foundation's
14 shareholder would be to hold and sell the stock and
15 assure that the proceeds are dedicated to support
16 Washington and Alaska health initiatives.

17 The organization shown on the left of the chart, a
18 new nonprofit charitable organization dedicated to
19 Washington and one dedicated to Alaska, would actually
20 carry out the charitable operations and the distribution
21 of those funds. Those two new charitable organizations
22 would be completely independent from Premiera; there would
23 be no Premiera control over those organizations, and no
24 representation by Premiera representatives on the boards
25 of those organizations.

1 The purposes of these charities? Premera, in the
2 Form A, has proposed a number of purposes including
3 addressing unmet healthcare needs of the uninsured
4 population, education of physicians and nurses and other
5 caregivers committed to serve rural areas, and in some, a
6 legacy endowment to improve healthcare in local
7 communities for years to come. But the Form A filing
8 also recognizes that we're looking to State officials to
9 define what that purposes would be, with input from the
10 community.

11 Now, we've talked about the charities. The purpose
12 for the reorganization, as Gubby has said, is so that
13 Premera can raise capital for its operations. And the
14 way it would do that is that Premera would have the
15 ability as a for-profit company to issue and sell stock
16 to the public market, that is the stock market, to raise
17 capital for its operational needs.

18 With that, I would like to thank the Office of the
19 Insurance Commissioner and the Office of the Attorney
20 General for the opportunity to present. And that
21 concludes our statement.

22 COMMISSIONER KREIDLER: Thank you very much,
23 Mr. Milo.

24 Now we come to the part where we open it up for
25 public comment. Let me go over a few details of how that

1 process works.

2 Before I do, though, I would like to acknowledge the
3 presence of State Representative Brad Benson, if he would
4 raise his hand. Brad, good to see you here tonight. And
5 representing State Senator Lisa Brown, Amber Lordes (ph).
6 Thank you for coming this evening.

7 When I call your name, I would like to have you come
8 forward and take a seat here in front of the microphone.
9 You're going to be allowed four minutes to share your
10 comments. And we have a timekeeper over here; Diane will
11 be indicating if the time is getting close for you.

12 I would ask that you try to keep your comments as
13 succinct as possible. If you have written comments, we
14 would ask you to, perhaps, if it's necessary to stay
15 within the time limit, to summarize them. And Diane will
16 accept any written comments that you have that you would
17 like to have as a part of the record.

18 As you can see, we have a court reporter here who is
19 recording and transcribing this meeting. It is extremely
20 helpful to her if you will, when you state your name, if
21 you could at least spell your last name for her. Also,
22 if you can speak slowly and not rush your words too much,
23 she can probably appreciate trying to keep up with people
24 if they speak too quickly. And again, if you need to,
25 perhaps, summarize to be a part of the record.

1 The reason we're limiting the time is to make sure
2 that we have ample time for everybody to have an
3 opportunity to offer their comments. And I'd like to
4 point out that the reason, that the both the
5 transcription of this forum and your comments will be
6 made a part of the record, and they will be available
7 through our web site.

8 I would also like to point out that we would
9 anticipate -- again, this is the preliminary, early in
10 the process -- that we will be having a second round of
11 public hearings, of which you can be assured Spokane
12 would be one of those locations where we would have a
13 further opportunity to receive public comment. And it
14 would be done at a time when we had additional
15 information available for the public.

16 We are not prepared this evening to answer
17 questions, engage in rebuttals, or debate. We have
18 questions ourselves. Your questions will, in fact, be
19 made a part of the formal record and made -- and will
20 assist us in the process that we are going through.

21 With that said, I'm going to begin now by calling
22 the people who have signed up, indicating that they did
23 wish to testify. If they said no, I will obviously -- I
24 won't call them. But if you put a question mark, I will
25 call them last and call those who did make a clear

1 declaration that they want to testify.

2 I want to call on Patrick Chestnut. Patrick, state
3 your full name and spell your last name for the
4 assistance of the court reporter, and any organization
5 that you may represent or, certainly, yourself.

6 MR. CHESTNUT: Thank you, Commissioner. My
7 name is Pat Chestnut, C-h-e-s-t-n-u-t, and I represent
8 the Washington State Farm Bureau.

9 We are pleased to have the opportunity to present
10 our support for Premera's proposal. We think Premera's
11 actions have been socially responsible and are
12 economically necessary.

13 After 15 years of healthcare reform in the State of
14 Washington, our 30-plus-thousand members faced a crisis
15 in healthcare because healthcare was not available to
16 farmers and ranchers and small businessmen all across the
17 state. Premera stepped forward and worked with us
18 diligently. Today we ensure over 25,000 people all
19 across the State of Washington. Our program has been
20 very successful. We currently have enrolment growing
21 every month, 25 percent of our new enrolment being the
22 uninsured groups that didn't have insurance previously.
23 And we think that's an important part of Premera's
24 commitment with us, to make sure that our 30,000-plus
25 members have access to healthcare.

1 Health plans have been operating on a 1970s
2 technology platform. I don't think it's any secret to
3 the providers or the organizations that work with them.
4 In the year 2000, we're all demanding better efficiencies
5 from the health plans. They're going to need the ability
6 to innovate. That's going to require capital. And as we
7 all want stabilization in rates and more efficiency in
8 the system, I think that's a very important part of what
9 CEO Gubby Barlow's talked about.

10 We work with Premiera on a daily basis. We work with
11 them in the provider-relations area. We work with them
12 to make sure that we have fair contracts with our members
13 that are also physicians and partners. And we have found
14 that Premiera's been very willing to try to find the
15 solutions.

16 As we talked about market-based solutions, we see
17 Premiera being extremely responsible by opening this
18 process, being available for comment. And also we find
19 that setting up the charitable trusts on the front end of
20 this has proven in historic Blue Cross programs to be
21 extremely efficient and fair to our members and residents
22 of the State of Washington.

23 As we look forward to Premiera's ability to do the
24 conversion, we look forward to being able to innovate
25 with our programs and bring the efficiencies in

1 continuing to reach out as our members each month come to
2 us for health care solutions. And we think the support
3 of this proposal in moving forward will continue to allow
4 us to meet the needs of our members.

5 We've been in existence for over 84 years in the
6 State of Washington. We're one of the oldest
7 associations. And we believe this partnership with
8 Premiera's been extremely productive for our members, and
9 we look forward to working with each of you in how we can
10 guide this process along. And we thank you for this
11 opportunity.

12 COMMISSIONER KREIDLER: Thank you,
13 Mr. Chestnut.

14 Frank Yuse.

15 And if I didn't make it clear that we are only
16 keeping to four minutes. I can't remember if I said four
17 minutes or not, but four minutes. Thank you.

18 Mr. Yuse.

19 MR. YUSE: Y-u-s-e. I'm speaking on behalf of
20 the Senior Legislative Coalition of Eastern Washington.
21 Thank you for the invitation.

22 We wish to go on record against the proposal of
23 Premiera Blue Cross' conversion from a nonprofit to a
24 profit-making unit. We're against the conversion for all
25 the reasons you've heard before or will hear in the

1 future. It's too fast a reversion, and it needs more
2 study, more debate, more research.

3 Secondly, other states, such as Maryland,
4 California, Kansas have not been pleased with such
5 conversion. Why?

6 Third, Washington State has a history of promoting
7 health insurance of nonprofit companies, not profit.

8 Fourth, there's a fear that a profit company would
9 raise rates, cut coverage, and increase copayments, and
10 so forth.

11 Fifth, that our rural areas of Eastern Washington
12 would lose coverage since it's not profitable. You heard
13 the previous speaker, but that's for a nonprofit
14 organization. But what happens after it become a
15 stockholder's bottom line?

16 Sixth, that bottom line of stockholders will guide
17 many of its decisions on health.

18 And lastly, the company may sell to another company,
19 which we fear.

20 What we want to leave you with in judging the pros
21 and cons of this issue is this guiding principle:
22 Healthcare is a basic human right implied in the
23 Declaration of Independence, life, liberty, and a pursuit
24 of happiness. And you can't have that if you're sick,
25 and that healthcare cannot be a marketable commodity for

1 profit. So we ask you to uphold that ideal, keep that in
2 mind as your guiding principle.

3 Thank you.

4 COMMISSIONER KREIDLER: Thank you, Mr. Yuse.

5 And now I would like to call on Mr. Len Eddinger.

6 MR. EDDINGER: Good evening, Commissioner
7 Kreidler, Mr. Odiorne, and Mr. Fallis. My name is Len
8 Eddinger, E-d-d-i-n-g-e-r. I'm the director of public
9 policy for the Washington State Medical Association.

10 The WSMA represents over 8,800 physicians and
11 surgeons in our state. On behalf our membership, I am
12 here this evening to offer brief testimony in opposition
13 to the conversion of Premiera from a not-for-profit to a
14 for-profit insurance company and to ask you as regulators
15 to slow the process of investigation so that
16 organizations like ours can have more time to study and
17 review this proposal.

18 At our recent annual meeting in Tacoma, our
19 association unanimously adopted a resolution in
20 opposition to the conversion. Our house of delegates is
21 comprised of physicians from every county and virtually
22 every medical specialty society. Its members come from
23 every type of setting, from academia to large groups to
24 individual practices. I offer this because it's
25 significant that a resolution on such an important

1 question should pass without a dissenting vote.

2 Our leadership believes, and it's been told in no
3 uncertain terms, that the proposal conversion is of
4 serious concern to our members. If Premiera converts to
5 investor-owned status, physicians across the state fear
6 that the company's attention will turn from concern for
7 its subscribers and the hospitals to increasing financial
8 returns to the company shareholders.

9 It's a hard fact in reality that managing such a
10 company structure has the fundamental fiduciary
11 obligation to its investors, both institutional and
12 individual, to maximize the return on their investment.
13 As management's interests turn to increasing profits, our
14 members are certain that will come at the expense of
15 physicians and hospitals, all of which are struggling
16 right now.

17 Our membership needs answers to many questions which
18 cannot be addressed in a hurried environment. Here are
19 some of our additional concerns. In areas of Washington
20 State where Premiera is functionally a single payer, like
21 here in Eastern Washington, what impact does that have on
22 the market and physician and hospital network. Our
23 members feel that it would be negative and that we would
24 receive reduced fees for services, or worse yet, that the
25 company, again needing to satisfy its shareholders, will

1 leave a market where it cannot realize sufficient return
2 on investment.

3 What exactly is the thinking of management of why it
4 needs to convert to for-profit status? To what use will
5 the newfound capital be put? The experience nationally
6 seems to be that capital raised in such conversions have
7 been used to acquire other plans.

8 Is Premera positioning themselves to be an
9 acquisition target by some large multistate insurer such
10 as Well Point or Anthem? Shareholder value will be
11 increased through such a sale. How could Premera not
12 sell? Will more attention be paid by management to
13 growing the company, to making it a more attractive
14 acquisition, than to attending to the needs of the
15 subscribers and network in our state? As a for-profit
16 company, will subsequent stock offerings be used to
17 enrich management? What will happen to Premera's
18 commitment to Healthy Options and the State's Basic
19 Health plan?

20 Finally, we ask you, Commissioner, and Attorney
21 General Gregoire to ensure that, should you be inclined
22 to grant this conversion request, that the assets of
23 Premera be preserved in similar not-for-profit
24 foundations supporting the health of the community.

25 Thank you again for the opportunity to be here.

1 COMMISSIONER KREIDLER: Thank you,
2 Mr. Eddinger.

3 I'd like to call on Dr. Beth Peterson.

4 DR. PETERSON: Good evening, Commissioner
5 Kreidler, Assistant Attorney General Fallis, and Deputy
6 Commissioner Odiorne. I am Dr. Elizabeth Peterson,
7 current president of the Spokane County Medical Society.
8 That's P-e-t-e-r-s-o-n. And we are an organization
9 representing over 1,000 physicians in Eastern Washington.

10 We would like to go on record as being strongly
11 opposed to the proposed plans to convert Premera from a
12 not-for-profit to a for-profit publicly traded company
13 and to the speed with which it may be complete. Our
14 primary goal tonight is to request that you slow the
15 process of approval of that conversion so that our
16 organization and its member physicians can investigate
17 the impact this conversion will have on the delivery of
18 healthcare in Eastern Washington.

19 Our interest is to ensure that already vulnerable
20 medical practices remain available in Eastern Washington,
21 preserving access to care for many in our community.
22 Premera holds a 50-percent share of the health insurance
23 market in Eastern Washington. This is their considerable
24 leverage in our marketplace.

25 Although Premera was built on the backs of

1 physicians' organizations across Washington, the fee
2 schedule has long been insufficient. This in turn is
3 largely responsible when practices lose the capacity to
4 absorb the losses from the public programs of Medicare
5 and Medicaid. It is now almost impossible to continue to
6 serve those patients. Physicians already have a
7 difficult time negotiating contracts with Premiera. In
8 fact, and in practice, there are very limited
9 negotiations of either the contract provisions or fees.

10 There is considerable pressure to sign under terms
11 that are not acceptable. Our members are concerned that
12 it will not be possible for the company to maintain the
13 current fee schedule when financial obligations to
14 shareholders exist. This may create a threat to the
15 viability of physician practices in Eastern Washington,
16 with subsequent access problems for patients who reside
17 in our community.

18 Please look at actual experiences with conversion
19 elsewhere, where payments to physicians declined 10
20 percent on average. Should it occur in Washington,
21 practice destabilization will follow.

22 Thank you for the opportunity to testify before this
23 hearing.

24 COMMISSIONER KREIDLER: Thank you,
25 Dr. Peterson.

1 Dr. Doug Norquist.

2 DR. NORQUIST: Good evening and thank you
3 Commissioner Kreidler, representatives from the Attorney
4 General's Office, and your Deputy Commissioner.

5 I am Douglas G. Norquist, N-o-r-q-u-i-s-t. I'm
6 current secretary-treasurer of the Spokane County Medical
7 Society -- and I am representing, like Dr. Peterson,
8 1,000 physicians in Eastern Washington. I would like to
9 reiterate our oppositions to conversion.

10 However, should conversion occur, I have the
11 following concerns. Premera has stated a desire to
12 remain a regional company after conversion to for-profit
13 status. Despite Premera's stated intent not be purchased
14 later in the foreseeable future, as healthcare costs
15 rise, Premera and its board have a duty to shareholders
16 to maximize the return on investment. Therefore, why
17 would it decline a generous purchase offer in the name of
18 commitment to community? Are Washington's anti-takeover
19 laws even relevant if the board accepts an offer?

20 It is difficult enough for us to deal with Premera's
21 market power. Imagine the impact on the delivery of
22 healthcare in Eastern Washington if Health Link or Anthem
23 had a 70-percent commercial share.

24 Secondly, despite the company's assurance that no
25 financial enrichment of the senior management will occur

1 with the successful conversion, they have not ruled out
2 incentive bonuses, including stock options, to be paid to
3 executives after conversion if their board perceives
4 added value to the company and votes to do so.

5 Finally, we have questions about the protection and
6 use of the current assets of the foundation. Realize
7 first that company reserves were funded not just by
8 premiums but also by an agreement by the physicians who
9 founded the Medical Service Bureau in its infancy to
10 accept lower fees.

11 We estimate that at least \$140 million of reserve
12 capital, and likely more, has left this community. What
13 assurance do we have that those funds will be returned to
14 the health and welfare of Spokane and Eastern Washington?

15 We urge you, Commissioner Kreidler and
16 representatives, not only to consider these issues but to
17 also slow the process of approval of this conversion so
18 our members can study and better understand its impact.
19 Thank you.

20 COMMISSIONER KREIDLER: Thank you,
21 Dr. Norquist.

22 Dr. Bob Hartman.

23 DR. HARTMAN: Good evening and thank you for
24 the opportunity to testify tonight. I'm Dr. Robert
25 Hartman of the Spokane County Medical Society,

1 president-elect, and I would like to continue the views
2 of my colleagues.

3 First, we reiterate that we believe that the process
4 is moving too quickly. We urge you to allow more time
5 for the necessary study of the impact of this change.

6 Second, please consider whether Premera's explained
7 its case adequately to justify conversion in the first
8 place. Is the need to increase reserves justified, and
9 is the for-profit capitalization mode the best way to
10 continue. More study by experts outside the company
11 would seem warranted.

12 Please consider the impact as dominant care in
13 Eastern Washington already has in offering contract to
14 providers on a take-it-or-leave-it basis due to its large
15 market share. Consider also the likelihood of the
16 feasibly declining fees; access for patients will become
17 problematic. Furthermore, retention and recruitment of
18 talented physicians in Eastern Washington is an
19 increasingly urgent problem within our community due to
20 the low reimbursement schedule on the part of Premera.

21 For all these reasons, we believe more time is
22 needed for our organization and its members, for the
23 people of Washington, to analyze the long-term
24 implication of this conversion.

25 Please do not deny us this chance. Thank you.

1 COMMISSIONER KREIDLER: Thank you, Dr. Hartman.
2 Bill Gotthold.

3 DR. GOTTHOLD: Name is Bill Gotthold,
4 G-o-t-t-h-o-l-d. I'm a physician, and I'm the
5 managed-care medical director of the Wenatchee Valley
6 Clinic. I've worked with Premera for the last 40 years
7 in that capacity. The clinic does not have a position on
8 this question of conversion, but I would like to offer my
9 personal comments.

10 Premera was a difficult company to work with. Their
11 systems and management were difficult to understand.
12 Responsiveness to complaints was poor, and when we ended
13 our managed care contract with them, it was with a sense
14 of relief. In the last two to three years, we have
15 witnessed a complete turnaround in the attitude and
16 approach of the company.

17 The first evidence of this was the expansion and
18 reorganization of the pharmacy plans. Decisions are now
19 made on the basis of scientific evidence. We get good
20 data about the prescriptions written by our physicians,
21 and we have enough confidence in the formulary to adopt
22 it for our employee plan. Both of these scenarios
23 occurred while Premera was a not-for-profit company.

24 It is my opinion that the financial structure of the
25 company is not nearly as important as the management

1 philosophy. We deal with not-for-profit hospitals every
2 day and find that business relationships vary greatly.
3 We find the same variation in the for-profit companies we
4 deal with.

5 In the highly regulated environment of insurance,
6 any company's ability to exhibit unfettered profit-making
7 behavior is quite -- we will look to the Office of the
8 Insurance Commissioner to continue oversight of all
9 insurance companies regardless of their financial
10 structure. Thank you.

11 COMMISSIONER KREIDLER: Thank you very much,
12 Dr. Gotthold.

13 I said before I wasn't going to call those who put a
14 question mark here, but let me do it. And if you would
15 like to speak -- and just so I don't confuse and miss a
16 name here. Laurie Bigej, did you wish to speak? No?
17 Mike Grimm? David McNab? Curtis Fackler?

18 MR. FACKLER: Good evening. I'm Curtis
19 Fackler, F-a-c-k-l-e-r. I want to thank the committee
20 for coming here to Spokane. And my background is I've
21 got an MBA in finance and spent 13 years in the
22 securities and insurance business and currently own a
23 payroll-human resources firm that does payroll for over
24 100 firms here in Eastern Washington.

25 My concern is what they've said before, and I don't

1 think the type of structure makes a big difference,
2 whether it's profit or nonprofit. But if you look in the
3 world today, most of the great innovations are coming
4 from for-profit companies. So I would say that I think
5 they ought to have an opportunity to do this, with this
6 being described as the perfect storm right now, and we
7 need a way out of this perfect storm and the mess that
8 we're in.

9 My problem might be is where does the value of this
10 company go? Some people said it might be worth a billion
11 dollars. And who does that belong to? I have some real
12 troubles with the foundation holding that money. Because
13 I look at a lot of other foundations or trusts, whatever
14 we want to call them, and the money does not go where
15 it's supposed to go.

16 A good example is the tobacco money that this state
17 is receiving, and now the legislature is borrowing
18 against that money for purposes that it wasn't made for.
19 So my real concern is who is going to be on that
20 foundation, who's going to appoint leaders to it, and
21 what's going to be their role.

22 Also in a corporation, the board of directors is
23 supposed to be elected by shareholders, while the
24 foundation, at the beginning, gets all the shares. Who's
25 going to elect the members of the board of directors of

1 Premiera? That's the real question.

2 I would say that something like this has never
3 happened in the state. My feeling is the value to this
4 company is the policyholders. Why not clear up this
5 whole mess and make it real easy and just say that the,
6 when the stock is liquidated, the policyholders at that
7 time get a refund. That is what happened with the
8 insurance companies became mutualized; they gave the
9 money to the policyholders. Think of the impact of a
10 billion dollars into the hands of the individuals who
11 have been paying premiums for 20, 30 years. So again, I
12 would ask the Attorney General to look at: Is it
13 possible that this money, again, could be given back to
14 the people that put the money into the company, and put
15 back to the policyholders and see if that's possible? It
16 may not be, but I would like -- and I would think that
17 may be possible.

18 Along with that from the public again, I want to
19 make sure the current executives couldn't exercise any
20 stock options for a period of three to five years, again,
21 to make sure that they're not in it to make a big profit.

22 So in summary, I would just like to say that I
23 believe that the policyholders are the ones that are the
24 value to the company, and the policyholders have been
25 paying thousands and thousands of dollars a year. Why

1 not give that money back to the policyholders today and
2 not worry about the foundation, not worry about who's
3 going to be on it, and have another level of bureaucracy.
4 'Cause that's the way I see the foundation on the
5 organizational chart; they add another layer of
6 bureaucracy. We all know bureaucracy costs money.

7 Thank you very much.

8 COMMISSIONER KREIDLER: Thank you, Mr. Fackler.
9 Leo Greenawalt?

10 MR. GREENAWALT: Thank you for the opportunity
11 to speak. My name is Leo Greenawalt,
12 G-r-e-e-n-a-w-a-l-t. I'm the president of the Washington
13 State Hospital Association, a position of over 21 years,
14 and this will have some relevance later to what I
15 mention. I'm speaking on behalf of Eastern Washington
16 hospitals today.

17 I didn't intend to come to this meeting because
18 insurance isn't an area I know much about. But I can
19 speak factually to a number of things that happened in
20 the last couple of days.

21 First, I have never had an issue, in the time I've
22 been here, where so many hospitals in the eastern side of
23 the state called up and said to me, "You've got to stop
24 this transaction. It's bad for us."

25 Our staff said, "If it's so bad, will you stand up

1 and present to this group tonight?" We couldn't get one
2 hospital to speak up. I started calling some of them
3 saying, "What is going on?" And the first couple
4 comments were, "Don't talk to us about a market in the
5 Spokane area. Premera is 70 percent of the market.
6 Negotiations, there's no such thing. You take it or
7 leave it, and you usually better take."

8 And in fact there are stories of incredible
9 intimidation, that if certain rates weren't accepted,
10 Premera would go to the business community or to press.
11 So whether this is true or not, I can't tell you. What I
12 can tell you is that I have members who are petrified to
13 even show up at this point.

14 I went to the rural hospitals, and there are -- most
15 of the hospitals in Eastern Washington are rural. Most
16 of them are public district hospitals. Nearly all of
17 them are in very bad shape. The message came back
18 similarly. In many of the communities, Premera is the
19 only insurer and the only one that insures their
20 employees as well. They were afraid to even come and
21 talk about that, about the fear of leaving because it
22 might seem to be they were opposing, so I couldn't even
23 get rural people to speak up on it. Look into it whether
24 it's true or not. I can't tell you.

25 What I can tell you, I have never in my 21 years had

1 people afraid to testify, ever. What I can also tell you
2 is your own Department of Health has -- at least 12 of
3 the rural hospitals in Eastern Washington are on the
4 verge of closure. The malpractice problem is making it
5 severe. They are convinced, if something happens because
6 of Premiera's conversion, it's the end of them. It will
7 be devastating to this community.

8 So I think we have all kinds of questions about what
9 comes after this, what might happen, what kind of
10 guarantees can be made. So I was very encouraged to hear
11 that the Attorney General may be looking into the
12 anticompetitive issues. There are huge issues on the
13 eastern part of the state. It may be different in the
14 west, so I'm glad to hear that. Thank you.

15 COMMISSIONER KREIDLER: Thank you,
16 Mr. Greenawalt.

17 Bill Akers, you didn't indicate whether you want to
18 testify or not.

19 MR. AKERS: No.

20 COMMISSIONER KREIDLER: Jim Watts?

21 UNIDENTIFIED SPEAKER: He's not here at the
22 present time, but will be later.

23 COMMISSIONER KREIDLER: Is he coming back, did
24 you say?

25 UNIDENTIFIED SPEAKER: Yes.

1 COMMISSIONER KREIDLER: He'll be back later.

2 I'm deliberately going a little bit slower out of
3 fear that we've pushed our transcriber a little bit hard
4 in Seattle night before last. So we're trying to be a
5 little bit more thoughtful.

6 Mark Barglof?

7 MR. BARGLOF: Good evening. My name is Mark
8 Barglof, B-a-r-g-l-o-f. I'm an administrator at Lincoln
9 County Public Hospital, District No. 1, in Odessa,
10 Washington. I happen to be one of the small rural public
11 hospital districts that Mr. Greenawalt just referred to,
12 and we operate in Odessa, Washington.

13 We happen to be, if not the smallest, pretty darn
14 close to the smallest hospital in the State of Washington
15 and are very concerned about Premera's plans on
16 converting from not-for-profit status to for-profit
17 status. In many areas of the state, particularly in
18 Eastern Washington, in rural Washington, Premera is the
19 only insurer, if not, one of the few. Our concern or our
20 question that I do have is: Will the company seek to be
21 become more profitable by cutting rates to the providers?
22 And also will Premera become more difficult to negotiate
23 with to make a profit?

24 Many hospitals, particularly rural hospitals, are in
25 dire financial straits. Potential of Premera payment

1 cuts would be the final blow to these hospitals.

2 Currently Odessa relies on Premiera for 55 percent of its
3 commercial insurance business.

4 Also, will Premiera seek to cut physician payments?
5 We already have very difficult times at recruiting
6 physicians to places such as Odessa, Washington. And
7 will this continue to make Odessa and other rural
8 hospitals a less desirable place for physicians to locate
9 to?

10 I thank you for THE opportunity to testify this
11 evening. I have serious concerns about this conversion,
12 and hopefully the Commissioner will take ample time and
13 due diligence in reviewing this request for conversion.

14 Thank you.

15 COMMISSIONER KREIDLER: Thank you, Mr. Barglof.
16 Let me assure you, we're going to take, from the
17 standpoint of time, as Mr. Odiorne pointed out, as much
18 time as necessary for us to make sure that we've fully
19 and completely analyzed all of the information that we
20 need in order to make a decision so it will not be a rush
21 decision, no matter what I perceive as a time line. And
22 the time line is going to be dictated by how long it
23 takes to get all the information we need. And I trust
24 that will meet with your satisfaction too.

25 Barbara Schlimmer.

1 MS. SCHLIMMER: Hi there. My name is Barbara
2 Schlimmer, S-c-h-l-i-m-m-e-r. You said that very well.

3 COMMISSIONER KREIDLER: I better; I'm German.

4 MS. SCHLIMMER: I'm the office planner at the
5 Odessa Clinic, which is part of the Lincoln County Public
6 Hospital District. I have been back there for, like, 25
7 years. I am an advocate for rural medicine and people
8 out there in the rural areas.

9 My concerns with this type of conversion is what
10 assurances will the plan have that it won't be -- that it
11 will always be offered to the patients, to us? There
12 isn't much out there. As Mark stated, there's 55 percent
13 of our patients on the commercial insurance. In addition
14 to that, we have 45 percent Medicare patients. Their
15 supplements, approximately 60 percent of those have
16 Premiera Blue Cross supplement.

17 I'm also concerned from a provider standpoint. We
18 take a great reduction in fees as it is. Mark alluded to
19 that. It's hard enough to get providers in the rural
20 areas, but to take possibly not -- we need the assurance
21 of not a reduction in fees that are provided, but also
22 assurance that patients will also have access to that
23 insurance.

24 And those are the parts that concern me, and I'm
25 glad to hear you say that you would slow -- take as long

1 as is needed, because it seems like this is happening too
2 fast, and we haven't had time to really evaluate it.
3 Thank you.

4 COMMISSIONER KREIDLER: Thank you very much.

5 Let me point out that the statute, the holding
6 company statute, specifies that we have -- that once an
7 application is submitted to us completely, we have 60
8 days. Premera has generously waived that requirement, so
9 this guarantees that we do have ample time to render a
10 decision. So we are not constrained by the statute.

11 Vic Forni?

12 MR. FORNI: Vic Forni, F-o-r-n-i. I'm not
13 representing any organization. I'm here primarily to
14 reinforce the importance of, in your decision-making, to
15 consider the overall impact on the accessibility and
16 affordability and availability of both insurance and
17 medical coverage for Spokane, that we have a fairly
18 significant uninsured population, and recognize that this
19 was your number one issue. I hope that -- just want to
20 reinforce that.

21 Second, Premera, through its history, has been a
22 very strong supporter of community activities and events
23 in Spokane and, again, this is something that I ask you
24 to take into consideration in whatever the future holds,
25 that that commitment to Spokane remains.

1 COMMISSIONER KREIDLER: Thank you very much,
2 Mr. Forni.

3 Is Jim Watts back?

4 UNIDENTIFIED SPEAKER: No.

5 COMMISSIONER KREIDLER: Cathy Miotke? Debbie
6 Reynolds? Question marks so... (Pause.) Janet Holloway?

7 UNIDENTIFIED SPEAKER: No.

8 COMMISSIONER KREIDLER: Norm Charney?
9 Charlotte Hardt?

10 MS. HARDT: Good evening, gentlemen. Thank you
11 for being here.

12 My name is Charlotte Hardt, H-a-r-d, as in David, -t
13 as in Tom; another German name.

14 I'm the immediate past president of the National
15 Rural Health Association and was a founding member of the
16 Washington Rural Health Association in 1989 in this
17 state, at which time I was the administrator of a small
18 rural hospital in Richland, Washington.

19 Concerns I have are the same ones you've heard
20 earlier on. They're concerns about the number of
21 insurance companies that are not in our rural counties
22 and the places where Premiera is the only one. And we're
23 really concerned about what happens in those counties if
24 we lose the insurance company that we have at this point.
25 It's a major issue for many of our providers in rural

1 communities.

2 I appreciate your comments about slowing down the
3 process for there to be adequate time, and I appreciate
4 Premiera's corporate responsibility. I know that's a
5 little unusual.

6 The other concern that we have, and I've -- if I'd
7 known about this sooner, I would have probably spent more
8 time in the past year and a half, as I went around the
9 country to other states, asking how things have worked
10 out. It comes up in conversation often when you talk
11 about conversion, what's happened.

12 There are people who are very happy about it. The
13 rural people in Colorado talk about the Colorado Trust
14 like it was the second coming. They're very pleased
15 about what has been -- they've been able to do in rural
16 communities because of the way the trust monies were put
17 together.

18 In other states, I've heard some things that make
19 you think that it was the other part of Dante's Inferno
20 that we're seen to be headed for. So part of it's
21 concern about how the foundations are set up, some major
22 concerns that we've just chatted about briefly in some of
23 our rural meetings, about representation and what count
24 rurals might have. I think we all understand that
25 rurals, the numbers of rural people are becoming less and

1 less. Fewer of them are actually farmers dependent on
2 agriculture these days, but we are attracting other kinds
3 of businesses into rural communities.

4 We need to ensure that those people have a voice,
5 and maybe in some ways a disproportionate voice, on this
6 foundation board as well as those who live in our
7 underserved urban areas, because those are the people
8 with the least resources to support their needs or to ask
9 for assets.

10 So those are basically the two things I would ask
11 you to look at. The assurance we've had about continued
12 coverage in rural areas and the support of physicians, I
13 don't need to repeat those. And then the other concern
14 is mainly, if this does happen, be sure that the
15 distribution of the assets and those people that are on
16 the foundation are representative of some underserved
17 parts of our state.

18 Thank you.

19 COMMISSIONER KREIDLER: Thank you very much.

20 Darlene Pursley wish to testify?

21 MS. PURSLEY: My name is Darlene,
22 D-a-r-l-e-n-e, Pursley. Did you...?

23 MADAM REPORTER: Could you spell your last
24 name, please?

25 MS. PURSLEY: P-u-r-s-l-e-y.

1 When I came this evening, I did not anticipate
2 speaking because the article in the newspaper said
3 questions needed to be sent by e-mail or something like
4 that. So I appreciate this opportunity to express my
5 concern and to ask questions.

6 MS. PRIGGE: Excuse me. Can you move a little
7 closer to the mike so the back of the room can hear you?
8 Thank you.

9 MS. PURSLEY: I have heard of a virtue extolled
10 of Premera Blue Cross by Mr. Chestnut, and I personally
11 have had excellent service from the Premera Blue Cross
12 policy which I have. My concern is -- and I could not
13 arrive on time, so maybe this has been addressed, and I'm
14 sorry to take your time if it has. But what assurance do
15 we have that this good quality will continue if the
16 company goes private -- I mean, public?

17 Also, my doctor, my primary care doctor, has just
18 retired because the insurance was too high for him to
19 continue. And I'm sure that it's true that the doctors
20 don't get sufficient funds, and that was one of the
21 factors which was contributing, to not pay the insurance,
22 just can't.

23 I realize everybody's in a crunch, financial crunch.
24 I personally have lost over 50 percent of my IRA
25 investment in the stock market in the last year or two.

1 And I think I'm not speaking only for myself, but for
2 many thousands of others in the state, that the insurance
3 premium is -- although I'm very glad to have this good
4 coverage, and I will pay a little bit more for it. But a
5 huge increase would be, well, devastating to me
6 financially.

7 And so I realize that everybody has problems with
8 this, and I appreciate your time. Thank you.

9 COMMISSIONER KREIDLER: Thank you very much.

10 Jim Watts?

11 DR. WATTS: Sorry I missed you earlier. I was
12 tied up at the hospital, and I just ran in and I've got
13 to go back. And thank you for taking me. I'm Dr. Jim
14 Watts, an obstetrician-gynecologist in town. And I would
15 like it say I present myself as a practicing physician
16 OB/GYN. I am a former board member of Medical Service
17 Corporation back in '91, '2, '3, '4, around that time.
18 And then I was on the board of Premiera. Went off that
19 board approximately two years ago. I think my
20 perspective is sort of that category.

21 When I first joined the board of MSC back in '91,
22 from -- externally it looked like a very prosperous -- it
23 was the largest insurance company on the Eastern
24 Washington side of the state. Everybody thought it was
25 doing great. But once you got on the board, and once you

1 got inside the structure, you found out that they were
2 leaking. They were not keeping current with the
3 infrastructure, with the computers, with the buildings.

4 This is true, I think, of all Blues across the state
5 at that point in time, and it's true nationally. And
6 nationally there were 75 dependent Blues companies back
7 in 1990, '91, and now I think they're down to about 75.
8 And it's a guess, and correct me if I am wrong, but it's
9 around 74, 75. So you've lost about 20 plans in the last
10 ten years.

11 And in that time in 1993, '94, it was clear that MSC
12 only had two or three choices, and the MSC board was made
13 up of half physicians and half business leaders in
14 Eastern Washington. And it was clear at that time that
15 either we had to coast along like we were doing and go
16 out of business in two or three years, or merge with
17 someone else, or get taken over by someone else. And I
18 was on the very traumatic meetings where we were
19 deciding.

20 And luckily we came across Blue Cross of Western
21 Alaska, where their strengths were our weaknesses, and
22 our strengths were their weaknesses. So we worked out a
23 merger around 1994, and it formed a very strong, viable
24 company and worked through that, working with the
25 insurance commissioner at that time and very proud of the

1 work we did.

2 I went off the board about two years ago, and at
3 that time it was clear to me that our computer systems
4 and our physical structure was going to deteriorate. And
5 we needed to find some money to recapitalize, and it was
6 very difficult to raise money when you're competing
7 against the for-profits.

8 At that point I went off the board, so I can't -- I
9 don't know what's happened in the two years since that
10 time, but I suspect that Premiera -- and I'm sorry if I'm
11 wrong -- but I suspect right now what's going on is
12 they're in the same boat. They've got three choices:
13 They can either sort of coast along the next two or three
14 years and gradually go out of business; they can merge
15 with another company, probably for-profit, either
16 midwest, California, or east coast; or they can go
17 for-profit, trying to raise some capital and be a very
18 viable, independent company supporting the northwest, a
19 Washington, Alaska, Oregon company.

20 I think MSC needed to merge to survive. I think
21 Premiera needs to do something, and if they merge, you're
22 going to lose the local support. And from the physician
23 point of view, I don't think there's a company in the
24 state of Washington that gives us better support than
25 Premiera.

1 There are arguments on all kinds of little things,
2 but from getting responses from -- the administration
3 getting responses from the physician board-type thing is
4 not, I suspect, my experience as a director of Premera is
5 that the board committed to remaining independent.

6 The consideration to conversion was not really
7 discussed when I was there so this has gone on in the
8 past two years. And I'm not privy to that type of
9 consideration conversation. But I know the three
10 members, physician members that are on the board right
11 now are Dr. Tom Ruan (ph), who was the president of the
12 Spokane County Medical Society president state of --
13 Washington State Medical Society; Dr. John Golhoffer
14 (ph), who was president of the Spokane County Medical
15 Society and past president of the State of Washington
16 Medical Society; and Tom Walls, who was a neurosurgeon
17 and CEO -- previous CEO of the prescription institute
18 (phonetic) down in California.

19 These three individuals understand the physician
20 community. They represented the community well. They
21 have been active a long time, both in the WSMA and the
22 private practice of medicine. I know how the board
23 works. They operate with due diligence, and I'm sure
24 these three physicians have worked with due diligence and
25 come to the same conclusion that I did with MSC back in

1 1993 or '94, that something has to give, or gradually the
2 company's going to go out of business, or it's going to
3 be taken over by someone else who has got more capital,
4 meaning a for-profit individual company, or they have to
5 raise capital going for a conversion.

6 So I feel comfortable that these individuals on the
7 board of business leaders, the board of physicians have
8 looked at this with due diligence. And I'm sure that
9 they're looking at the impact and the welfare of the
10 subscribers, the welfare of the physician partners, the
11 welfare of the state and the region.

12 My experience as a physician shows that Premiera's
13 stuck by the Eastern Washington community. They have
14 remained committed to the rural areas. As I'm sure you
15 know, this is not true in a lot of companies. I think
16 they have worked with Eastern Washington, working with
17 physicians, physician's advisory board to -- for fee
18 schedules, not being on a fee schedule myself, mind you.
19 But I think they try to explain their rationale. They're
20 committed to Eastern Washington and all the region of the
21 Pacific Northwest. In Eastern Washington they have
22 donated over 600,000 hours to the foundation strictly for
23 Spokane and Eastern Washington; done the same thing in
24 Oregon and Alaska and Seattle area.

25 In summary, I think there are some issues that I'm

1 sure people have brought up here, and I did not,
2 unfortunately, get to listen to. And I'm sure they have
3 to be addressed by you and your commission.

4 But I think you have to also consider the
5 alternative. In my opinion, I think, if assuming that
6 the -- I think assuming that either they nurse themselves
7 along for the next two, three, four, five years and
8 gradually go out of business, or they get taken over by
9 someone with deep pockets, and the only ones I know with
10 deep pockets are for-profit fellows, and then you lose
11 and representation in Eastern -- in the Northwest; or
12 they go for a conversion.

13 So what I would highly recommend, vigorously
14 recommend, that you consider allowing them to go for a
15 conversion and work with -- work out the issues that the
16 communities and the -- bring up. And I think you can
17 work with the management to resolve the issues to
18 everybody's satisfaction.

19 But I think you must look at the down side if this
20 is not allowed to happen. I could explain it in a lot
21 more detail, but I only have three or four minutes, and I
22 don't want to take your time.

23 Thank you for listening. Any questions or...?

24 COMMISSIONER KREIDLER: We have plenty of
25 questions, but we're abstaining. Thank you, Dr. Watts.

1 I had a question mark from Robert Hartman. Passing?
2 Glen Stream?

3 DR. STREAM: Mr. Commissioner, I would like to
4 thank you and your panel members for coming to Spokane
5 and allowing us all to have our concerns addressed. My
6 name is Glen Stream, S-t-r-e-a-m. I'm a family physician
7 here in Spokane, and I represent the Washington Academy
8 of Family Physicians and its 2600 members, many of whom
9 practice in rural and underserved areas in Eastern
10 Washington.

11 Our organization has no official opinion, but has
12 great concerns about the proposed conversion of Premera
13 to for-profit status. I will not reiterate all of the
14 concerns as expressed by my fellow members from the
15 Washington State Medical Association and the Spokane
16 County Medical Association. But I certainly agree with
17 all of their concerns and would ask, as they have as
18 well, to slow the process in the deliberations about this
19 conversion.

20 Specifically, my concerns and the concerns of my
21 organization are, if the conversion were to occur, about
22 the assets of the organization and the preservation of
23 those for the public good. As I read on their web site
24 today, Premera's terminology is they we propose that
25 these assets be passed into a foundation for this

1 purpose. I would ask that there be some greater degree
2 of insurance that this is, in fact, what is accomplished
3 if this conversion occurs.

4 My greater concern has to do with my understanding
5 of similar conversions elsewhere in the country, where
6 payments to providers, physicians, and hospitals both
7 have decreased by approximately 10 percent. As you are
8 critically aware, Mr. Commissioner, in our state our
9 providers are already critically disadvantaged in
10 reimbursement under state and federal healthcare plans.

11 Our healthcare practitioners are in jeopardy in many
12 parts of our state in the actual availability of their
13 practices. If there were a 10-percent decrease by a
14 70-percent-commercial-insurance-market-share company,
15 there would be malpractice failures on a significant
16 scale. And in rural Eastern Washington, if a small town
17 practice closes, the disadvantage to the citizens of that
18 area's considerable, where they would have to go 30 or 40
19 or 50 miles to access healthcare. I think that it needs
20 to be considered for the citizens of this state, and
21 particularly in Eastern Washington, where those regional
22 issues are so critical.

23 I'm concerned that, again, as mentioned by others,
24 the concern about the responsiveness of the board of such
25 a company to its shareholders rather than to its insureds

1 and to the people with whom it does business, the
2 providers.

3 I understand the concerns by Premera, as a company
4 preserving its future needs for capital. These are
5 certainly not different than concerns that providers in
6 the state that certainly have no access to improvements,
7 that we would like to do.

8 I am simply not convinced that this conversion is in
9 the best interests of the providers and the citizens of
10 the state and would ask that the pace and the extent of
11 the process and its evaluation be consistent with the
12 importance of this decision for the citizens.

13 Thank you.

14 COMMISSIONER KREIDLER: Thank you very much,
15 Doctor.

16 Peter Jackson?

17 MR. JACKSON: Hi. I'm Peter Jackson,
18 J-a-c-k-s-o-n. And I'm the president of Foundation
19 Northwest, which is a community foundation here in
20 Spokane. We serve the ten eastern counties of
21 Washington, the ten northern counties of Idaho.

22 And I have really no comment on the viability or the
23 appropriateness of conversion. That's beyond my level of
24 expertise. I would like to acknowledge, however, that
25 MSC Premera has been a solid corporate citizen. They

1 have created a significant endowment in our foundation to
2 provide benefits or access to healthcare for people that
3 do not have insurance.

4 So I will really be addressing my comments toward
5 the results of the conversion and the issues surrounding
6 the creation of a foundation. If it's determined that a
7 single charitable entity be created for benefit of
8 Washington, I think that there needs to be appropriate
9 guarantees in place that the distribution of those
10 charitable dollars is equitable for the entire state.

11 As the foundation manager, I can tell you that you
12 have a phrase in our business called Puget Sound myopia,
13 which really refers to, even though you have a statewide
14 board, there is a natural tendency to pay more attention
15 to what's going on on the west side of the state than the
16 east side of the state.

17 Now, there are also significantly different issues
18 in terms of access to healthcare and health status in
19 Eastern Washington that are more rural in nature, as
20 opposed to the issues of urban access in the western side
21 of the state.

22 There are other models that exist for the delivery
23 of charitable dollars to provide a way of proportioning
24 those out. There's not time enough in four minutes to go
25 into detail on those, and I would be happy talk with you

1 at another time about that. That can essentially afford
2 and address some of the concerns that people from Eastern
3 Washington have about making sure that those dollars that
4 have been contributed into Premiera from Eastern
5 Washington come back.

6 Secondly, I think that this charitable entity as
7 it's created must be unfettered by a carryover from
8 Premiera, both in the transition stage and in its eventual
9 status afterwards. It must be free to operate as it sees
10 fit appropriately, which may even be at times an
11 opposition to for-profit entities.

12 There are other models besides C-3 conversions that
13 I would urge you just to take look at that may or may not
14 be appropriate for this particular situation. But there
15 is a conversion that occurred in Oregon, Northwest Health
16 Foundation, and the Attorney General and the Insurance
17 Commissioner in the State of Oregon determined that
18 creating a C-4 entity was more appropriate than a C-3
19 entity because of the C-4's ability to add. And it was
20 really unfettered and unconstrained in terms of acting in
21 the public interest.

22 So I would hope that you would take those things
23 into consideration as you debate this. This is certainly
24 a weighty issue for the State and, again, thank you for
25 the opportunity to testify.

1 COMMISSIONER KREIDLER: Thank you very much,
2 Mr. Jackson.

3 Brian McAlpin?

4 MR. McALPIN: Good evening. I'm Brian McAlpin,
5 M-c-A-l-p-i-n. I'm the administrator of Rockwood Clinic
6 here in Spokane, which is a large multispecialty group.
7 And I thank you for taking your time to hold these
8 important public forums relating to Premiera's request to
9 move to a for-profit insurance company.

10 Clearly, as you well know, addressing this request
11 does not offer easy solutions and raises many emotional
12 reactions. Accordingly, this complex issue creates
13 certain questions which need to be answered before I can
14 make a determination as to the wisdom of such a change
15 and speak either for or against their request.

16 First, I would ask that Premiera give assurance for a
17 period of time that, subsequent to their changing to a
18 for-profit company, that they would not sell themselves
19 to another larger insurance company since such merger can
20 cause concerns and less-than-positive outcomes in the
21 Washington market for patients and healthcare providers.

22 Secondly, I would ask Premiera to commit to
23 maintaining a minimum reimbursement level for Washington
24 healthcare providers. This could be defined as a minimum
25 percent of premium which would be continually budgeted

1 for healthcare service providers, regardless of economic
2 or profit pressures which may occur in a for-profit
3 status.

4 Third, I believe the State of Washington and its
5 regulatory and political leadership must commit to using
6 any and all of the foundation monies for providing
7 healthcare to needy Washington residents. It must be
8 recognized that this is not free money. It came from
9 reimbursements not paid to physicians and other
10 healthcare providers. It must not be left unprotected to
11 the whim of Olympia. Accordingly, there must be failsafe
12 walls around these funds so that they can not follow the
13 pathway of the tobacco monies being used as easy fillers
14 for budgetary gaps.

15 Finally, I find it hard to understand the wisdom in
16 fast-tracking this process because of the complexity and
17 emotions involved. Accordingly, I would encourage your
18 consideration in moving your decision time line back so
19 that analysis does not get rushed.

20 Having shared these concerns, I must point out that
21 in my two years of dealing with Premiera, and for that
22 matter Group Health or other key insurance providers, I
23 have found their local and corporate leadership to be
24 honest and forthright individuals, very concerned for the
25 good of their insured patients while trying to manage

1 through a healthcare economy being burdened by the state
2 and federal governments shirking their responsibilities.

3 One only need to look at Premiera's support to the
4 diabetes education and many numerous other health
5 programs and community programs for but a few examples
6 which clearly show their integrity and commitment to the
7 health and well-being of their insureds and our patients.

8 Thank you very much.

9 COMMISSIONER KREIDLER: Thank you, Mr. McAlpin.

10 Carol Ellis?

11 MS. ELLIS: My name is Carol Ellis, E-l-l-i-s.
12 I thank you all for coming to Eastern Washington. I
13 represent myself as an Eastern Washington citizen for all
14 my life. I've been in Spokane County for 11 years, in
15 Stevens County, and I've worked with Prairie County.

16 And I want you to hear loud and clear how many
17 people speak for the rural people because I have had to
18 visit people in those hospitals. I have had to put
19 buying care for people in those hospitals. And so I just
20 want to affirm that the rural nature of Eastern
21 Washington requires a special condition.

22 I also want to say that I have been covered by MSC
23 when I was in medical service, purely since I was very
24 young. And I think that the word "service" needs to be
25 underlined and that a lot of the money that was built and

1 the goodwill that was built was built over decades and
2 decades and decades before Premiera Blue Cross ever came
3 on board.

4 I happen to know a physician who was an aide to the
5 president of MSC, and service really was a motive. And
6 so I want to bring into question whether to solve the
7 systematic problems we have nationwide and statewide, if
8 going for-profit is the most savvy move to make,
9 especially because we do have the problems that Eastern
10 Washington presents uniquely.

11 MSC was made of local physicians, and people who
12 work at MSC have worked there all their lives. And I can
13 say personally that I had no troubles with MSC. It was
14 only when MSC merged with Premiera Blue Cross that I ever
15 had to make phone calls or I ever had to go in and visit
16 to explain something.

17 So I have grave doubts whether it would get simpler
18 because I know that as people age -- I have had to manage
19 care for aging people -- it gets more difficult for them
20 to work through bureaucracy. And so I do have questions
21 about future takeovers. And then that big reserve, I
22 say, was built not just in the last ten years but since
23 World War II and probably someone could say before then.
24 But I was a baby boomer.

25 So last of all I want to say that Washington State

1 has been on the cutting edge in some areas for
2 healthcare, and I would like you to look at the big
3 picture of how to keep us there and look at whether
4 privatization, in this case, in particular really puts us
5 on the cutting edge or takes us down a notch in getting
6 care to our citizens.

7 Thank you very much for coming.

8 COMMISSIONER KREIDLER: Thank you very much.

9 Garth Steele?

10 MR. STEELE: Okay. My name is Garth Steele,
11 S-t-e-e-l-e. I've been with MSC for about 20 years.

12 And I guess I thanked the good Lord for insurance
13 because, on big-ticket items, they've done a good job.
14 But we've been frustrated trying to get some of these
15 things. My wife's had some health problems, and I just
16 broke my ankle, so I can't work. But trying to get it
17 seems like they're covering about 8 percent instead of 25
18 to 100 percent. And it's just very frustrating at this
19 point trying to communicate.

20 These professionals have come here; I appreciate it.
21 I wish to take a look at all the concerns I have before
22 you go ahead and okay this. I guess my main concern is
23 if they -- or a big corporation, is the service going to
24 decrease? And the only experience I have, my daughter
25 was an RN, traveling RN, and she tells me some of the

1 horror stories about some of these big corporations in
2 hospitals where she's forced to work with patients
3 without assistance and that don't speak English very
4 well. And yet her head is on the block if they mess up.

5 So those are some of the concerns that I have, and
6 thank you very much for your time.

7 COMMISSIONER KREIDLER: Thank you very much,
8 Mr. Steele.

9 That does conclude everyone who signed up indicating
10 a desire to testify or speak or ask questions this
11 evening.

12 Let me point out that this is the second of four
13 meetings that we are conducting around the State of
14 Washington. Again, they are preliminary meetings, and
15 they will be transcribed and available through the --
16 available through our web site to anybody who wishes to
17 access them.

18 I should point out that, of the four meetings, two
19 will be held in Eastern Washington, two will be held in
20 Western Washington. The next meeting will be held in the
21 Tri-Cities, followed by Vancouver.

22 We would anticipate that there will be another round
23 of public meetings that will be conducted once we have a
24 considerable amount of additional information that would
25 be generated by the experts that we have retained. And

1 when that information is available, both to us and to the
2 public, we would anticipate, then, having an additional
3 round. And let me assure you, Spokane is assured of
4 being one of those cities that we will be conducting one
5 of those meetings before any formal meeting takes place.

6 You can access our web site, and there's an icon
7 there that is marked "Premiera conversion," and our web
8 site is www.insurance.wa.gov. There's also a place on
9 our web site and on the conversion web site that -- where
10 you can actually send an e-mail if you wanted to add
11 additional comments. There's also, in that e-mail
12 address, as I said, is there at our web site by
13 conversion@oic.wa.gov. We will also have an opportunity
14 there if you want to be on a notification list that we
15 will then have a way to electronically contact you, if
16 this is your desire.

17 I want to express my sincere appreciation to all of
18 you who came out tonight and participated in this public
19 process. It is invaluable to me as I go forward and have
20 to make a decision.

21 Again, this is on a very preliminary basis because
22 that filing was only just really last Friday. The second
23 part of that filing was submitted to our office. As
24 Mr. Odiorne pointed out, the entire filing is available
25 on our web site. The first 500 -- the first some

1 thousand pages were posted already. The additional
2 something-like-500 pages are in the process and next
3 couple days will be posted so that if you want to look at
4 the specifics of the filing, that's there. But other
5 information as it becomes available will also be
6 accessible through that site.

7 I want to once more express my appreciation, both
8 for the Attorney General and for myself in helping us do
9 the job that we need to do. And thank you once more for
10 coming out this evening.

11 This meeting is adjourned.

12 (Proceedings concluded at 7:50 p.m.)
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C E R T I F I C A T E

I, SUE E. GARCIA, a duly authorized Court Reporter and
Notary Public in and for the State of Washington, residing at
Tacoma, do hereby certify:

That the foregoing proceedings were taken before me on
the 2nd of October, 2002, and thereafter transcribed by me by
means of computer-aided transcription, that the transcript is a
full, true, and complete transcript of said proceedings;

That I am not a relative, employee, attorney, or
counsel of any party to this action or relative or employee of
any such attorney or counsel, and I am not financially
interested in the said action or the outcome thereof;

IN WITNESS HEREOF, I have hereunto set my hand and
affixed my official seal this October 8, 2002.

SUE E. GARCIA, CCR, RPR

GA-RC-IS-E305QB